IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2007 through the Fourth Quarter of 2010

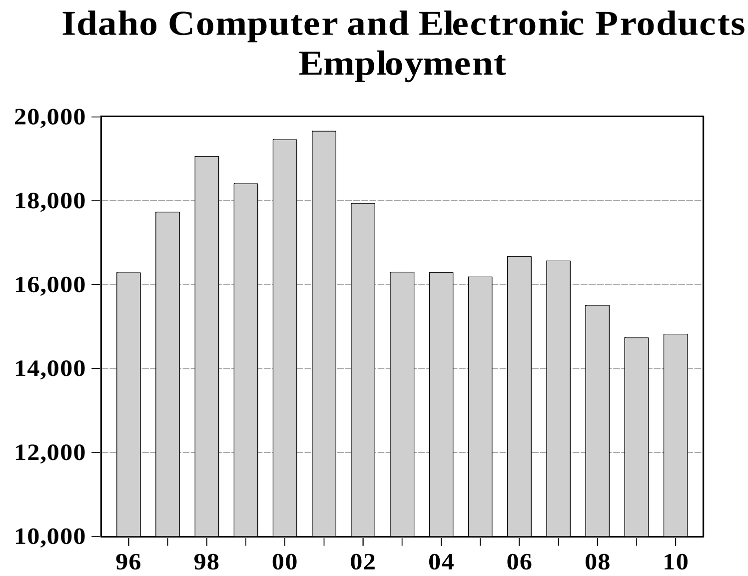
The Idaho economic outlook has been ratcheted down slightly since this summer. This adjustment reflects the third time this year we have reduced our employment forecast. At the beginning of the year nonfarm employment was expected to grow 2.5% per year from 2006 to 2010. In April 2007, this growth rate was reduced to 2.4%. In July 2007, we projected Idaho nonfarm employment would advance 2.3% annually. In the current forecast, nonfarm employment average growth is scaled back to 2.1%. These changes reflect the impacts of incorporating more up-to-date employment data, the lower growth trajectory for the national economy, and job reductions in the manufacturing sector.

The 1,100-job reduction by Micron Technology was first incorporated into the July 2007 *Idaho Economic Forecast.* The company is the state's largest private employer, so its jobs cut will be felt both behind and beyond its gate. As was reported in July 2007, a reasonable estimate is that for every job lost at Micron, another one will be lost somewhere else in the economy. Of course, the initial wave is being absorbed by the state's computer and electronics sector. Not surprisingly, its employment is expected to drop significantly this year. Unfortunately, this sector's employment is not expected to recover soon. In fact, this sector is forecast to shed jobs over the next three years. The only improvement comes in 2010, when employment adds 85 jobs. This is a much different environment than in the 1990s when favorable conditions fueled this sector's rise to become the state's largest manufacturing employer.

The state's housing sector's future is less bright than it appeared last summer, with both housing starts and construction employment adjusted downward from their previous levels. In the July 2007 forecast, we predicted Idaho housing starts would slip to about 16,000 annual units by the second quarter of 2007. Actual data show starts dropped to about 15,700 units in the second quarter. In addition, the housing projection for the remaining forecast years have been reduced. Specifically, there are 138 fewer starts in 2008, 561 fewer starts in 2009, and 637 fewer starts in 2010. These lower housing starts have dampened the outlook for future construction employment. Last summer, construction employment was expected to go from about 52,100 jobs in 2006 to just under 49,600 jobs in 2010. This decline represents an annual average drop of 1.2%. However, construction employment drops off more steeply in the current forecast. Specifically, it declines 1.7% annually, leaving construction employment about 840 jobs lower than in the July 2007 forecast. Construction employment will be missed because it expanded 5.4% annually from 1997 to 2006, making it an important ingredient in the state's recent prosperity.

The good news is that while the Gem State's economy will stall, it will not stop. It will be carried by the nongoods-manufacturing sector, which is expected to see its job growth actually accelerate from 2.4% in 2007 to 3.1% in 2010. The following service components are major contributors to this sector's predicted success: professional and business, education and health, and leisure and hospitality. As was mentioned in the first paragraph, Idaho nonfarm employment is forecast to grow an average of 2.1% per year. At this rate the number of Idaho nonfarm jobs rises from 638,899 in 2006 to 693,178 in 2010. Over this same period, Idaho real personal income is forecast to expand at a 4.4% average annual clip.

SELECTED IDAHO ECONOMIC INDICATORS

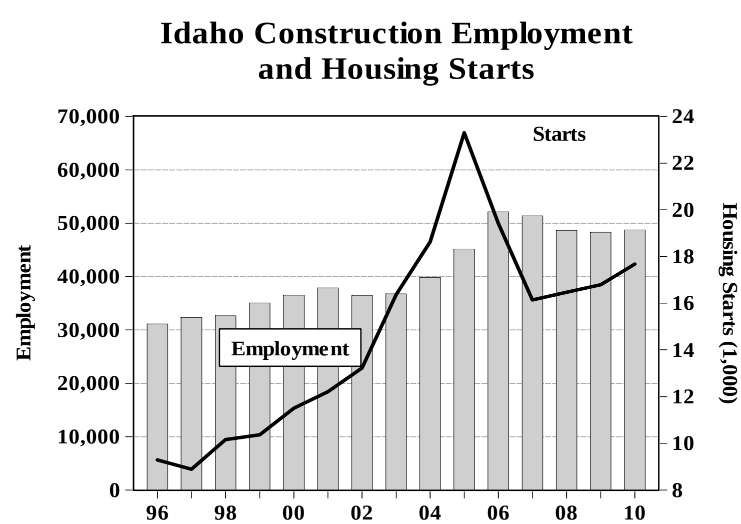


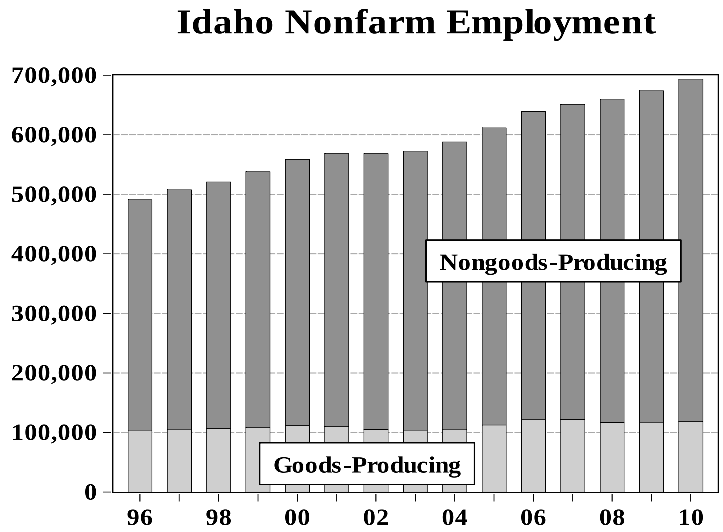
Computer and Electronics: Idaho's high-tech employment is expected to contract over most of the forecast period. This forecast reflects a two-prong hit to the state's largest manufacturing sector. The first, and major, blow was the 1,100-job reduction by Micron Technology. Company officials stated this move was an attempt to restructure its operations in order to reduce production costs. The need for costs savings became immediate due to the recent collapse of memory product prices that led to a $225 million loss for the company in its third quarter that ended on March 31, 2007. The company reported a glut of products on the global market dropped prices for DRAM 35% and NAND Flash products 30% from the previous quarter. Unfortunately, prices have dropped further, and this contributed to the $158 million loss in the fourth quarter of the company's fiscal year. Micron Technology lost a total of $320 million in fiscal year 2007. In comparison, the company had a net income of $408 million in the previous fiscal year. Micron is the state's largest private employer, and, as such, its job losses will extend beyond its gate. A reasonable estimate is each Micron job lost will eventually result in another job lost elsewhere in the economy. Another factor dampening this sector's outlook is relatively subdued real spending on equipment and software. The slow growing demand will exert downward pressure on memory prices. As such, the main way for Micron Technology to return to profitability lies in its ability to cut costs faster than prices decline. The company continues to pursue this goal. It points out its cost of goods sold per megabit decreased by 10% from the third quarter of fiscal 2007 to the fourth quarter of fiscal 2007. Other players are appearing on the state's high-tech radar. Hoku Materials is building a polysilicon production plant in Pocatello, which is expected to be operational in late 2008. There are expected to be 16,566 computer and electronics manufacturing jobs in 2007, 15,506 jobs in 2008, 14,733 jobs in 2009, and 14,818 jobs in 2010.

Logging and Wood Products: Idaho lumber and wood products employment has responded faster to the current U.S. housing implosion than it did with its explosion earlier this decade. This sector's employment began declining in the third quarter of 2006, just one quarter after U.S. housing starts began falling. In contrast, housing starts began to take off in 2002 and peaked at 2.07 million units in 2005. National wood production expanded 11.1% over this same period. The strong housing sector also led to a run up in lumber prices. Random Lengths reports its lumber composite price jumped nearly a third from 2002 to 2005 and its structural panel composite price increased a whopping 86.3%. Despite these strong conditions, the Gem State's lumber and wood products sector shed about 800 jobs from 2001 to 2003. Its first year-over-year job gain was delayed until 2004, and employment peaked at around 10,200 jobs in the second quarter of 2006. As the boost from demand recedes, this sector's fortunes will become dominated by supply issues which tend to dampen its outlook. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling timber supply from public forests. The U.S. Forest Service estimates over the ten-year period from 1994 to 2004 the harvest from Idaho national forests fell by two-thirds, from 429.7 million board feet to 143.3 million board feet. This decline represents a significant

resource loss to the state. Specifically, national forests' share of Idaho's timber harvest shrank from 28.5% in 1994 to 12.3% in 2004. This decline resulted in the closure of several mills around the state. Ironically, these closings have increased the lumber and wood products sector's overall efficiency. As a result, fewer workers will be needed in the future. Despite the industry's downsizing, excess capacity remains a challenge. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. These factors suggest future employment is not expected to approach its recent peak. Specifically, it is forecast there will be 9,542 jobs in 2007, 8,621 jobs in 2008, 8,352 jobs in 2009, and 9,085 jobs in 2010.

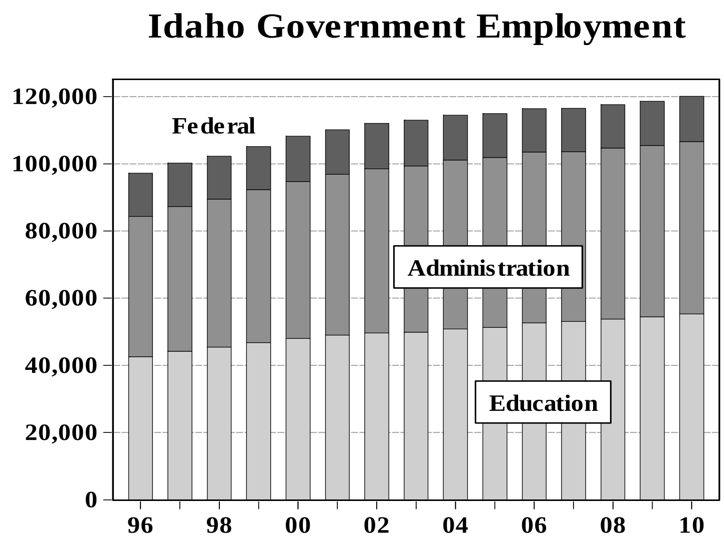
Construction: The Gem State's economic engine will be short an important cylinder, as construction employment responds to a flattening local housing sector. Idaho housing starts enjoyed a nearly decade-long expansion. From 1997 to 2005, the number of housing starts raced from 8,888 units to just over 23,300 units, culminating with a peak of 23,305 starts in 2005, an amazing 12.8% average annual growth rate. Construction employment growth expanded 5.4% annually from 1997 to 2006. However, these numbers mask how strong employment has been recently. During the 2004 to 2006 period, employment has increased by at least 8.0% per year. Housing starts suffered a nearly 17.0% drop in 2006, but construction employment expanded thanks to robust nonresidential building. Unfortunately, this buffer is not likely to buoy employment for long. Idaho housing starts should decline by another 17.0% this year. This drop will result in a lagged decline in local construction employment. Specifically, the number of jobs is predicted to decline 1.4% this year, but by over 5.0% in 2008. Housing starts are expected to gradually improve after this year, growing to about 17,700 units in 2010. Construction employment will take longer to recover, with the next job gain arriving in 2010. In summary, the construction sector is forecast to shed about 3,800 jobs from its 2006 peak of 52,028 positions to its trough of 48,293 jobs in 2009. Construction employment then increases by a meager 0.9% in 2010 to 48,713 jobs. While these levels of construction employment and housing starts may pale compared to their respective peaks, they are still relatively high compared to history. For example, employment in 2010 is still about 8.0% higher than the 45,149 jobs in 2005. Similarly, Idaho housing starts at 17,674 units in 2010 is 39.2% higher than the historical average of 12,700 units.





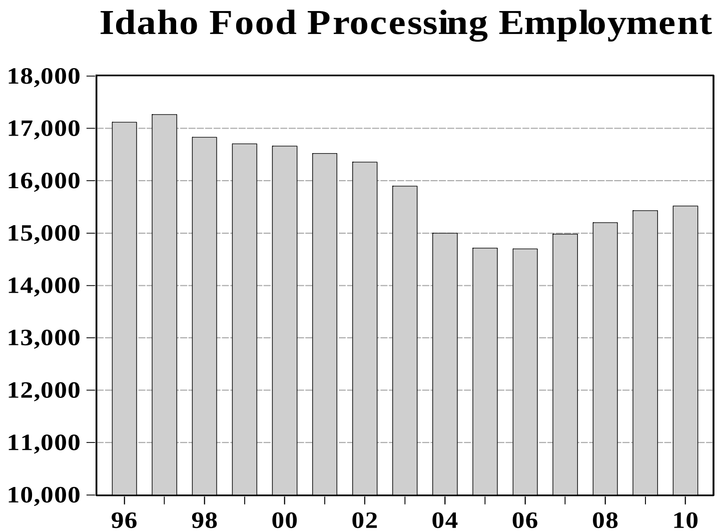
Nongoods-Producing Industries: Idaho's largest private employment sector, nongoods, will also be its fastest growing sector over the forecast period. Its importance should come as no surprise given its huge size. It accounted for roughly two-thirds of last year's job gain. Industries in this sector can be divided into two broad categories: services and trade. The services category, with 292,725 employees in 2006, is the larger of the two. There were 107,466 trade jobs in Idaho last year. The services category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Services employment has traditionally been the faster growing of the categories, advancing an average of 3.2% annually over the last five years versus 1.8% for trade employment. One of the services category's strongest performers is professional and business services. This category's employment should expand an average of 3.2% per year over the next four years. Other hot performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics, so it is relatively immune to business cycle swings. This category should add jobs at a 3.6% average annual pace over the forecast period. Financial services employment will feel the impact of the cooling local housing market. After expanding by an average of around 6.5% in both 2005 and 2006 as the housing sector boomed, its job base will expand 2.8% annually over the forecast period. After posting a 2.8% showing in 2007, transportation, warehousing, and utilities sector employment will fall victim to the housing sector's woes and stall. Not all sectors will suffer this fate, however. The leisure and hospitality category will expand at a 3.4% yearly rate. Information service employment should rise at a 2.3% annual pace. The other services category includes call centers such as Dial 411's new operation that has begun hiring in the Meridian area. Its payroll could reach 300 jobs within its first year of operation. Employment in the other services category is projected to accelerate over the forecast period. The trade sector's employment should grow an average of 3.6% per year, with its retail component growing slightly faster (3.8%) than its wholesale piece (3.3%). Employment will benefit from the opening or expansion of several large retailers, such as Cabela's store that opens this fall in Post Falls. North Idaho retailers also hope more favorable exchange rates will draw more Canadian shoppers into their stores.

Government: Idaho state and local government employment growth is anticipated to cool over the next few years, as the state's population growth shifts into lower gear. The relationship between population and government employment is evident in the historical data. From 1991 to 2000, Idaho's population increased about 2.5% per year. Over this same period, Idaho state and local government expanded 3.0% annually to meet the demands of the booming population. As in the past, this surge resulted from an influx of new residents. Population growth cooled in the first part of the current decade and so did government employment. From 1999 to 2004 population growth slowed to a 1.7% annual pace. State and local government employment growth followed suit, slowing to an average 1.9% annual pace. Another wave of new residents pushed Idaho population growth well above 2.0% in both 2005 and 2006. There were over 24,000 new residents in both 2005 and 2006. These new residents accounted for around two-third of the total population growth in those years. In comparison, during population's most recent growth nadir in 2002, less than half of that year's growth was due to inmigration. The current forecast assumes immigration will taper off as the Idaho economy cools. As a result, the Gem State's population growth will drop down to around 2.0%. Idaho state and local government employment is forecast to grow about half as fast as the population. However, growth rates will vary among its two components. Idaho education employment is expected to advance about 1.3% per year from 2006 to 2010. During this same period, noneducation-related government employment should expand just under 0.2% annually. Federal government employment in Idaho has hovered near 13,000 jobs over the last few years, and it is projected to continue doing so over most of the forecast horizon. The exception being 2010, when hiring for the U.S. census pushes employment above 13,500.



Mining: The state's mining industry has benefitted from climbing metal prices. The spot price of silver more than doubled from $4.60 per ounce in 2002 to $11.62 per ounce in 2006. According to the U.S. Department of Labor, the wholesale price index (WPI) for metals and metal products jumped 44.4% over the same period. In response to the rising metal prices, mining employment increased from 1,758 jobs in 2002 to 2,375 jobs in 2006. The price surge has other positive impacts beyond employment; it has rekindled plans to increase mining production. Kathryn Tacke, the Idaho Department of Labor's Regional economists for the state's Panhandle, recently recapped the increased interest in mining opportunities in North Idaho. With silver remaining above $11 an ounce and other Silver Valley mining byproducts—including lead, zinc, copper and gold—also commanding high prices, many possibilities are being explored in the Silver Valley. Using the record profits it earned the last couple of years, Hecla Mining is expanding production at and exploration around its Lucky Friday Mine, where it employs 200 people. U.S. Silver Corp. is mining new finds at the Galena Mine, where another 200 people work, and it now is exploring the feasibility of reopening the Dayrock, a lead and zinc mine three miles northeast of Galena that closed in 1977. Sterling Mining Co. plans to re-open the Sunshine Mine, which closed in 2001, this winter. SNS Silver plans to spend $3.5 million exploring the Crescent Mine. New Jersey Mining Co. is exploring at the Golden Chest, and its potential looks enormous. Timberline Resource Corp., headquartered in Coeur d'Alene, is exploring the Snowstorm, a historic silver-copper mine, and adjoining properties. These projects have the possibility of impacting employment down the road. In the short term, however, employment will be driven by expected smaller metal price increases. The slower price gains should lead to a slight decrease in Idaho mining employment. Specifically, the number of jobs in this sector slides from a peak of 2,491 in 2007 to 2,154 in 2010.

Food Processing: Food processing's role in the state's economy cannot be overstated. This sector had 14,700 jobs in 2006, making it the state's second largest manufacturing employer. The computer and electronics manufacturing sector is the largest with 16,664 jobs. The value of food manufacturing output accounted for more than half (55.7%) of the total Idaho nondurable manufacturing output from 1997 to 2004 and about 2.6% of the state's total gross domestic product. While 2.6% of output may appear to be



a small part of the economy, it masks the state's dependence on this sector. Its relative importance can be seen when it is compared to its national counterpart. Food processing accounted for just 1.6% of U.S. economic output. Clearly, Idaho's economy is more dependent on food processing than the nation. A similar argument can be made for employment. Food processing employment accounted for 2.3% of the state's nonfarm jobs in 2006, while it accounted for just 1.1% of national nonfarm employment. Food processing has faced its share of challenges this decade. Nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restricted imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About 400 jobs were lost when the company closed the plant. However, recent news regarding the food processing sector has been promising, suggesting its employment is ripe for expansion. Some of this growth will come from plants that had been closed. The Nampa meat processing plant has been reopened by XL Foods, Inc. It is anticipated that it will replace all the jobs lost from Swift's closure once the plant is running at full capacity. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert and plans to start production on November 1, 2007. Marathon Cheese is building a $27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. After declining for nearly a decade, Idaho food processing employment is expected to stabilize then grow slowly. Specifically, the number of jobs is forecast to gradually increase from 14,700 in 2006 to 15,521 in 2010.